

Teachers' Retirement Board
Investment Committee
Open Session

Subject: 1997-98 Objectives	Item Number: <u>9</u>
Report on Timeline	Attachment(s): <u>1</u>

Action: _____	Date of Meeting: <u>May 6, 1998</u>
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Information: <u>X</u>	Presenters: <u>Mr. Mitchell</u>
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EXECUTIVE SUMMARY

Attachment I is a report of the progress in achieving the 1997-98 Objectives for the Investment Branch. The timeline was previously approved by the Investment Committee during the August 1997 meeting with updates scheduled for November, February and May. The original timeline format has been modified to include two additional columns that denote "In Process" and "Completed". These columns were included to apprise the Investment Committee of the status of the approved objectives.

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			Attachment I
			Item 9
	Expected Date Of Completion	IN PROCESS	COMPLETED
DOMESTIC EQUITY			
1. Evaluate the role of active management in the domestic equity portfolio.			
A) Discuss the role of active management in the domestic equity portfolio including peer group comparisons, industry standards, academic research, and current allocation.	Aug 1997		X
B) Create and present a comprehensive plan designed to achieve the desired role of active management as adopted by the Investment Committee.	Oct 1997		×
C) Create an implementation schedule with the appropriate strategy to include coordinating the modifications of the domestic equity portfolio evaluation process.	Jan 1998		×
2. Complete a presentation regarding the possibility of internal management of the passively managed domestic equity portfolios considering cost of management, level of control, trading costs and asset allocation.			
A) Create and present a plan designed to identify the advantages and disadvantages of internal management of the indexed portion of the domestic equity portfolio.	Sep 1997		X
B) If approved by the Investment Committee, create a schedule for coordinating the modifications in the communication, reporting and control elements of the domestic equity management process.	Nov 1997		X
C) Implement the schedule including the recruitment of personnel, acquisition of electronic equipment, and completion of appropriate documents.	Jun 1998		X
3. Evaluate and present uses of externally managed enhanced index strategies relating to the domestic equity portfolio.			
A) Within the context of active management, review and evaluate the types of risk controlled strategies that could be used in the STRS' domestic equity portfolio	Oct 1997		X
B) If approved by the Investment Committee, create and present a comprehensive plan designed to coordinate the various types of domestic equity managers.	Jan 1998		X
C) Create an implementation schedule with the appropriate strategy to include integration of the various active domestic equity managers.	Jul 1998		X
4. Present a report that describes methods to equitize cash in the domestic equity portfolio			
A) Prepare and present a report to the Investment Committee describing alternative methods to convert the return on cash held by the equity managers into equity type returns.	Feb 1998		X
B) Make recommendation(s) to the Investment Committee regarding the applicability or appropriateness of the alternatives identified.	Apr 1998	X	
C) If approved by the Investment Committee, create an implementation schedule for the approved strategy.	May 1998		

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
FIXED INCOME	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. Evaluate the role of global fixed income in the total investment portfolio.			
A) Determine the objectives of a global fixed income strategy defining the scope and the criteria of the analysis.	Sep 1997		X
B) Review and identify the appropriate performance benchmark considering the objectives of a global fixed income strategy.	Mar 1998		X
C) Review and evaluate the implications of the implementation issues such as: (1) active or passive, (2) strategic or tactical, and (3) internal or external.	May 1998		X
D) Present the findings and recommendations to the Investment Committee.	May 1998		X
2. Develop a complement of management reports using the PORTIA portfolio accounting system to assist in the management and monitoring of the internally managed fixed income portfolios.			
A) Review and evaluate the information contained within the existing reports provided by the custodian and other sources as it related to the management and control functions within the internally managed fixed income portfolios.	Oct 1997		X
B) Develop a reporting package that addresses the management and control requirements of the fixed income portfolio managers, audit department, and investment operations.	Jan 1998	X	

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
REAL ESTATE	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. Develop the appropriate risk and liquidity composition of the real estate portfolio considering traditional, opportunistic, and securitized components.			
A) Determine the appropriate scope of services to be used in the selection of a consultant for the real estate area.	Aug 1997		X
B) With the selected consultant, review and analyze the risk/return and liquidity composition options for STRS' real estate portfolio.	Oct 1997		X
C) Present alternatives to the Investment Committee regarding a real estate strategy to achieve the desired risk/return and liquidity composition.	Nov 1997		X
D) Develop and implement a schedule to accomplish the strategy selected by the Investment Committee to include modifications to the composition of the traditional, opportunistic and securitized real estate components.	Feb 1998	X	
2. In an economically effective manner, revitalize the Member Home Loan Program through the modification of vendor relationships and loan programs to attract more participants.			
A) Select the master servicer through an RFI process and finalize the appropriate correspondent agreement(s).	Aug 1997	X	
B) Develop new loan programs including adjustable rate loans and other features important to the members.	Nov 1997	X	
C) Coordinate a marketing program with the master servicer to inform STRS' members of the new facets contained in the Member Home Loan Program including the introduction of new loan types.	Jan 1998		
3. Complete a process(es) to select a real estate consultant and real estate advisors in a manner that will effectively combine existing resources with contracted expertise.			
CONSULTANT:			
A) Determine the appropriate scope of services and minimum requirements for the consultant.	Aug 1997		X
B) Complete the appropriate process as directed by the Investment Committee to select a consultant.	Oct 1997		X
C) Follow the selection of a consultant with a review of the real estate portfolio to develop strategies designed to achieve the objectives listed above.	Nov 1997		X

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PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
OFF-BALANCE SHEET PROGRAM	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. <i>Improve the securities lending program by implementing internal management of cash collateral and evaluating internal management of selected portions of the domestic equity and domestic fixed income portfolios.</i>			
A) Resolve accounting, communication, and custodial related issues associated with the control function for the internal management of cash collateral.	Aug 1997		X
B) Modify the Off-Balance Sheet Policy and Procedures Manual and present the revised Manual to the Investment Committee for approval.	Nov 1997		X
C) Gather and analyze information regarding an internally managed securities lending program composed of the most liquid domestic securities (large cap domestic equity and U.S. T-Bills).	May 1998	X	
D) Present the findings and recommendations to the Investment Committee for review.	Jun 1998		
2. <i>Expand the credit enhancement program to reduce the level of risk through diversification and increased credit review.</i>			
A) Re-establish contact the a MBAC, FGIC, MBIA, AND FSA to ascertain their level of interest in working within the STRS' program.	Oct 1997		X
3. <i>Review the policy for managing the currency risk in the active and passive non-dollar equity portfolios.</i>			
A) Review and evaluate the active and passive managers' currency hedging results since the inception of the Currency Hedging Program in 1993.	Sep 1997		X
B) Present the findings and recommendations to the Investment Committee for review.	Sep 1997		X

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
ALTERNATIVE INVESTMENTS	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. <i>Coordinate the successful transition of the Alternative Investment advisory duties to Pathway Capital Management including a management review of the terms and conditions of each of the existing partnerships.</i>			
A) Review and evaluate each general partnership's portfolio, deal flow, pricing, performance, and management team.	Sep 1997		X
B) Present a qualitative assessment of each general partnership including a summary of the findings and recommendations to the Investment Committee for review.	Oct 1997		X
2. <i>Develop and present a policy allowing the investment Committee to make a contingent commitment to follow-on and select funds pending review and recommendation by the Alternative Investment Advisor.</i>			
A) Review and evaluate the viability of alternatives designed to streamline the approval process to reduce the time from first look to approval or rejection.	Nov 1997		X
B.) Present the findings and recommendations to the Investment Committee for review.	Nov 1997		X
3. <i>Review, evaluate, and present a recommendation on continued delegation to staff including a definition of the proper delegation criteria.</i>			
A) Review the delegated authority for staff approval of selected alternative investments to determine continued relevancy.	Jan 1998		X
B). Present the findings including a redefinition of the appropriate delegation criteria to the Investment Committee.	Feb 1998	X	
4. <i>Determine the appropriate use of internal databases and how those databases will be used in conjunction with Pathway Capital Management to improve portfolio management, performance measurement, and management reporting.</i>			
A) Review the internal databases used by STRS and Pathway to determine the degree of compatibility.	Mar 1998		X
B) Coordinate with staff to minimize the amount of unnecessary duplication and to maximize the degree of compatibility.	May 1998	X	

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
INTERNATIONAL EQUITY	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. Evaluate the role of active management in the international equity portfolio.			
A) Identify the role of active management in the international equity portfolio including peer group comparisons, industry standards, academic research, and current allocation.	Mar 1998		X
B) Create and present a comprehensive plan designed to achieve the desired role of active management as adopted by the Investment Committee.	May 1998	X	
C) Create an implementation schedule for the appropriate strategy including coordinating evaluation of the international equity portfolio.	Jun 1998		
2. Complete a presentation regarding methods to augment the active international and passive emerging market managers to increase the amount of emerging market equity in the investment portfolio considering cost of management level of control, trading costs and asset allocation considerations.			
A) Identify the role of active management for emerging market equity securities including peer group comparisons, academic research, and current allocation.	Mar 1998	X	
B) Create, present and implement a plan designed to achieve the desired role of active management for emerging market securities as adopted by the Investment Committee.	May 1998		

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
INVESTMENT OPERATIONS	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
1. Evaluate a network communication security system solution to protect STRS while integrating external information providers' access to the Investment Branch local area network.			
A) Review STRS information security policy to determine if the policy addresses the Investment Branch's network issues.	Aug 1997		X
B) Gather and evaluate information on network security systems.	Nov 1997		X
C) Analyze alternative methods of providing network security and implement the appropriate network security system for new vendors and existing contractor's communications.	Jan 1998		X
2. Participate in the planning and implementation process of additional investment related programs such as internal management of equity or securities lending, to minimize the disruptions to existing products and programs.			
SECURITIES LENDING:			
A) Review the internal management of cash collateral program requirements to determine the impact on investment operations and the accounting department.	Aug 1997		X
B) Coordinate start-up activities with fixed income, investment operations, accounting and audit departments.	Sep 1997		X
INTERNAL MANAGEMENT OF EQUITY:			
A) Review program requirements to determine operational and accounting impact.	Sep 1997		X
B) Coordinate research with equity, accounting, and audit to assist in the presentation to the Investment Committee.	Sep 1997		X
C) Create an implementation schedule for any strategy approved by the Investment Committee.	Sep 1997		X
3. Study the impact to information systems used by the Investment Branch for potential Year 2000 problems coordinating with the overall Y2K project.			
A) Coordinate assessment of network and personal computer's hardware and software issues with STRS Information Technology.	May 1998	X	
B) Assess custodian's effort and its impact on the Investment Branch system.	May 1998	X	
C) Develop and implement a plan in conjunction with Information Technology to implement corrective measures or necessary actions for problems discovered.	Jun 1998		

PROPOSED TIMELINE FOR IMPLEMENTATION OF OBJECTIVES			
	EXPECTED DATE OF COMPLETION	IN PROCESS	COMPLETED
INVESTMENT ADMINISTRATION			
1. Create and present a 1997 Investment Management Plan			
A) Prepare and present the Investment Management Plan Incorporating the asset allocation targets and ranges approved by the Investment Committee.	Nov 1997		
2. Revise the Statement of Investment Responsibility and Financial Responsibility guidelines for corporate investments.			
A) Study and evaluate social issues, shareholder support, all proxies, and financial proposals voted during 1997 proxy season.	Aug 1997		X
B) Review SEC proposal regarding Shareholder Proposal Rule on social issues.	Sep 1997		X
C) Update and revise guidelines based on reviews and studies.	Oct 1997		X
D) Present guidelines to the Investment Committee for review and approval.	Nov 1997		X
3. Evaluate internal management of international proxy voting and global corporate action.			
A) Survey international managers on execution, costs of current methods of handling international proxy voting and global corporate actions. Survey institutional investors on execution, costs and benefits.	Feb 1998	X	
B) Discuss with Automated Data Processing (ADP) the potential for electronic transmission of votes; discussion will include costs for services.	Mar 1998	X	
C) Review and evaluate ADP's platform for international proxy voting.	May 1998	X	
D) Present findings and recommendations to the Investment Committee.	Jun 1998		
4. Review the requirements of foreign exchange transactions and cash balances and recommend changes which would improve efficiency and reduce expenses.			
A) Survey international managers, peer group and general consultant to estimate the impact of the repatriation requirement for all cash movement internationally.	Jan 1998	X	
B) Present findings and recommendations to the Investment Committee.	Feb 1998		
C) Develop and implement a schedule to accomplish the strategy selected by the Investment Committee including procedures for monitoring cash activity.	Apr 1998		